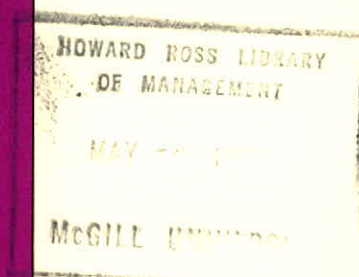


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**First
Quarter Report
Diversified
Investment Funds
January 1 to
March 31, 1977**



International Trust Company

International Trust Company is a wholly-owned subsidiary of Citicorp in New York. As such, it is part of the most widely represented financial services organization in the world. In its own right, International Trust Company has the same broad powers as any Canadian trust company. It has, however, elected to confine its activities almost exclusively to asset management.

Through its Investment Management Group, International Trust Company provides Asset Management to employee benefit plans and to corporate and individual investors. Asset Management includes investment management, custodian services, and the fulfillment of fiduciary responsibilities where the Company is appointed trustee.

The Diversified Investment Funds

The Diversified Investment Funds were established January 1, 1967 and are operated for the collective investment and reinvestment of tax-sheltered monies. The Funds are fully managed by International Trust Company and consist of four separate investment portfolios: the Canadian Equity Fund; the International Equity Fund; the Fixed Income Fund; and the Mortgage Fund.

Additions to, or withdrawals from, each Fund, or inter-Fund transactions, are effected on monthly valuation dates at net asset value. Income earned is distributed monthly.

This report is concerned primarily with investment composition and performance.

The Background For Investment

Warning — Slow Growth Ahead

Most forecasters seem to be holding to their view that 1977 will be a year of modest growth. Estimates of real growth in GNP seem to vary between 3% and 5%, and the Minister of Finance, in his latest Budget, came down squarely in the middle at 4%. Any way you want to cut it, this recovery is a frail affair in comparison to the strong bounce Canada enjoyed out of the 1970 recession, and everything, including people's attitudes, seems to be affected.

There is plenty to worry about. Inflation is high, unemployment is high and there is an overriding anxiety that the economic recovery will not necessarily last longer merely because it is moving at a slower pace.

There are also some hopeful signs. Government leaders in virtually all jurisdictions seem to have recognized the need for restraint. Mr. MacDonald, in his latest Budget speech, clearly named inflation as public enemy number one and the Budget itself seemed to address itself to that problem. Most provincial and municipal governments across the country have recognized the need to reduce spending increases. The Governor of the Bank of Canada has been quite outspoken in his objectives for monetary policy, and is working against specific growth rates for money supply.

Indeed, government spending has been the big engine of growth, and it is beginning to slow down. That is really the principal reason for the modest pace of the present recovery.

Outside Canada

In the U.S. economic forecasters are scrambling to sort out the effects of unusual weather conditions. To Citibank economists it looks as if business is making up a lot of the ground lost in the big freeze. Unemployment in the U.S. is still high, but the rate has eased to 7.3%, and the 7.4% estimated for the first quarter compares favourably with an almost 8% rate in the fourth quarter of 1976. Such key indicators as housing starts and manufacturers' orders have bounced back smartly. Real growth in the U.S. is expected to be close to 5% in both 1977 and 1978, making these two good years of economic recovery. Inflation in the U.S. is expected to be around 5% - 5.5% in both years, but if current higher rates of money supply growth continue Citibank economists

are worried that we may see inflation tilt back up to 7% - 9% in 1979 or 1980. Corporate profits are expected to be up 10% - 12% in 1977, their third year of recovery.

In Japan the growth of the domestic economy was quite slow in the latter part of 1976 and early 1977. Money supply has been restrained to a rate of increase below 10%, really quite modest for Japan. Some government stimulation is being injected into the economy, and a growth rate of 5.4% in real GNP is forecast for 1977. Citibank economists think this might move up close to 8% in 1978. Inflation should keep easing from a 9.2% rate in 1976 to around 8% in 1977 and 7% in 1978.

In Europe, Germany, France and Italy all had real growth in excess of 5% in 1976, better than had been widely forecast. In 1977 and 1978 Germany and France are expected to enjoy real growth around 5% with 1978 being a slightly better year than 1977. The inflation rate in Germany is running below 5% and is expected to decline further in 1978.

This happy development is unique to Germany among European countries. France's inflation rate, at 10% - 11% is more than double Germany's, Italy's at 18% - 19% estimated for 1977-1978, is likely to be almost double the level in France.

The U.K. is still the sick man of Europe, but shows signs of improving. Real growth in 1976 was a meagre 1.5% and the inflation rate was around 17%. For 1977 some improvement in real growth to 3% - 3.5% is likely, but restrictive monetary policies should cause this to fall back to 2% - 2.5% by 1978. Inflation should come down but is forecast to remain in double digits, perhaps 12% - 13% in 1977-1978.

A Changed International System

The later 1950's and the 1960's witnessed rapid and relatively steady world economic growth — indeed, the most rapid and perhaps the steadiest growth the world has ever seen. It was also a period of relative monetary, price and exchange-rate stability. And in the leading industrial countries, it was a period in which the growth of government intervention in domestic markets and international markets was held in check, partly for ideological reasons and partly by a rather strong political commitment to freer international trade. Furthermore, Europe at that period felt extremely dependent on the United States for its military security,

and that along with U.S. ideological commitment to free markets served to hold the forces of socialism and protectionism in check in Europe to an extraordinary extent, certainly extraordinary if you compare it with the period between the two world wars.

All of this is changing or has, to a considerable extent, changed already. U.S. monetary policy for the last seven or eight years has been on average overly expansive and erratic. The economic traumas of the last few years have left quite lasting scars. For example, the high inherited rate of inflation, the high and persistent rates of unemployment present in all the industrial countries.

We are in a new era — a new sort of international economic system — and one that promises more inflation, less steady expansion of real demand, more stop-and-go as monetary policies tack back and forth between a concern with inflation and a concern with unemployment, a system in which it will be difficult to exercise effective external monetary discipline on most countries. And this is a system in which ideological and political inhibitions on government intervention and on protectionism have also been weakened. So growth, and steady growth in particular, are affected not only from the demand side, but probably also from the side of supply. This is most marked in the industrial countries that are most troubled, namely, the U.K., Italy and France.

The big story for Canada, however, will be in the progress of the U.S., Japan and Germany.

The Canadian Dollar: Having fallen to a level around 95, the Canadian dollar may well strengthen over the next few months. Interest rate spreads remain attractive for Canadians borrowing abroad, and some improvement in the climate for Canadian issues seems likely.

The Coming Months: There should not be too many big surprises looking ahead through the summer months. The federal budget has appeared, as have those of most provinces. The AIB will be with us through the next few months, and announcements on its future seem unlikely before June. The Quebec White Paper on the French language is being debated and should provide sufficient room for discussion. With politics settling down a bit we can return to watching business progress through the second quarter.

CONTENTS PAGE

Fixed Income Fund

Comparisons with	
40 Bond Index	2
Investment Portfolio	3
Portfolio Analysis	4

Mortgage Fund

Comparisons and Review	5
------------------------------	---

Canadian Equity Fund

Comparisons with	
TSE Industrial Index	6
Investment Portfolio	7
Portfolio Analysis	8

International Equity Fund

Comparisons with DJIA	9
Investment Portfolio	10
Portfolio Analysis	11

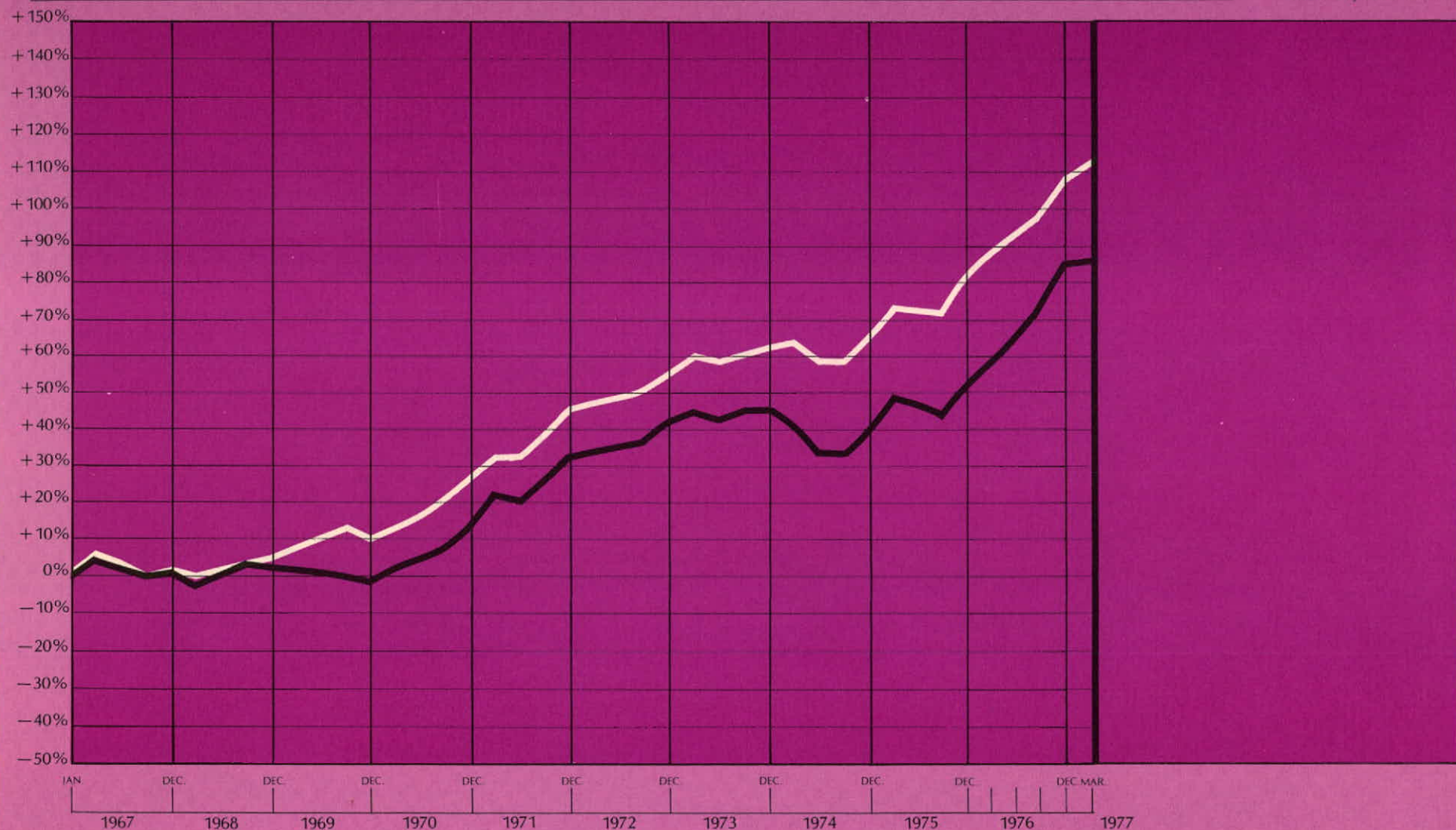
Unit Values	12
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Fixed Income Fund

<i>Comparisons Between</i>	GRAPH COLOUR	VALUE MAR. 31/77	VALUE DEC. 31/76	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE YEAR-TO-DATE	AVERAGE ANNUAL COMPOUND YIELD SINCE INCEPTION
Fixed Income Fund		\$ 9.60	\$ 9.66	—0.6%	—0.6%	—0.4%
Fixed Income Fund (Incl. Inc.)	■	\$ 21.29	\$ 20.98	+1.5%	+1.5%	+7.7%
McLeod Young Weir 40-Bond Index		49.78	50.64	—1.7%	—1.7%	—2.8%
McLeod Young Weir 40-Bond Index (Incl. Inc.)	■	304.59	302.51	+0.7%	+0.7%	+6.2%

Average Yield to Maturity of Fund Assets
 Dec. 31, 1976 9.06%
 Mar. 31, 1977 9.09%



Fixed Income Fund

Investment Portfolio

Bonds / Convertible Bonds 91%		Market Value
Par Value		Mar. 31, 1977
\$ 500,000	Govt. Canada 4-1/2% Sept. 1/83	\$ 413,950
250,000	Hydro Elec. Pwr. Comm. of Ont. 9-3/4% Aug. 15/81	263,125
1,025,000	Hydro Elec. Pwr. Comm. of Ont. 10% May 18/01	1,056,160
850,000	Prov. of Ontario 9% July 1/98 Prepay July 1/83	874,990
325,000	Prov. of Quebec 8-5/8% Mar. 1/99	290,875
300,000	Prov. of Sask. 7-3/4% Feb. 17/82	294,000
250,000	Prov. of Sask. 8-1/4% Dec. 3/98	224,625
250,000	Prov. of Sask. 9-7/8% Nov. 3/00 Prepay Nov. 3/83	265,800
300,000	Abitibi Pulp & Paper 10-1/2% Mar. 1/95 Prepay Mar. 1/85	312,375
400,000	Alum. Co. of Canada 9-3/8% Jan. 2/91	387,000
300,000	Ashland Oil Can. Conv. 5% Jan. 15/93	225,000
300,000	Ashland Oil Can. 10-3/8% Nov. 1/96	307,500
600,000	BM-RT 6-1/4% Apr. 1/78 Cum. Wts.	615,480
200,000	BM-RT 9% Apr. 1/80	200,340
500,000	BM-RT 10-1/4% Jun. 1/81	517,500
250,000	Bell Canada 9-3/4% Jun. 3/79	255,625
400,000	Bell Canada 8-3/8% Aug. 1/93	357,520
600,000	Bell Canada 9-7/8% Apr. 1/99	603,000
200,000	B.C. Telephone 8-3/4% Jan. 15/81	200,000
250,000	B.C. Telephone 9-1/4% Apr. 15/98	235,175
400,000	Calgary Power Ltd. 11-1/8% Sept. 16/79	422,000
500,000	Canadian Imperial Bank of Commerce 7-1/4% Dec. 15/92 Prepay Dec. 15/78	492,000
300,000	CP Limited 11-1/4% Nov. 15/95	324,750
100,000	Consumers Gas 8-3/4% Aug. 15/94	92,000
300,000	Dominion Foundries and Steel 9% Feb. 1/91	287,250
250,000	Dominion Stores 9-1/2% Mar. 1/80	253,125
300,000	First Canadian Investments Limited 9-3/4% Mar. 15/81	306,000
500,000	First Canadian Investments Limited 10% Dec. 1/81	518,500
500,000	General Motors Accept. 8-5/8% Feb. 9/79	508,400
300,000	Hudson's Bay Company 9-3/4% May 1/79	305,160
250,000	Hudson Bay Co. Acceptance 8-3/4% Jun. 1/91	225,625
200,000	Hudson Bay Mining & Smelting 9% Jun. 15/91	186,000
500,000	I.A.C. Limited 10-1/4% July 30/83	525,000
300,000	John Labatt 9-1/4% Sept. 1/90	290,640
200,000	John Labatt 9% Mar. 15/94	187,500
200,000	Maritime Tel. & Tel. 8-1/4% Jun. 15/77 Ext. Jun. 15/90	200,000

Bonds/ Convertible Bonds 91 % Par Value	Market Value Mar. 31, 1977
300,000	Molson Industries 8-1/4% Nov. 1/91 268,500
100,000	Niagara Realty Corp. 10-3/8% Dec. 18/84 104,500
200,000	Noranda Mines 9-1/4% Oct. 15/90 194,000
235,000	Olympia & York Dev. Ltd. 10-1/2% Oct. 31/79 242,943
300,000	Olympia & York Dev. Ltd. 9% Mar. 1/90 ret. 8-3/4% /82 301,500
350,000	Roynat Ltd. 9% Mar. 1/80 350,875
200,000	Seagram Co. Ltd. 7% Dec. 15/78 196,000
600,000	Seagram Co. Ltd. 9-1/2% Jun. 1/80 613,500
250,000	Simpsons-Sears Acc. 10-1/4% Aug. 15/79 257,500
400,000	Steel Co. Canada 9-1/4% Nov. 1/90 392,500
200,000	TDRI Conv. 5-1/2% Feb. 15/93 202,000
225,000	TransCanada Pipe 10% Jun. 20/90 226,125
200,000	Union Carbide 10-3/4% Jun. 15/95 211,000
	16,584,933
Reserve 9%	
Cash & Short Term Notes	1,550,604
Total Assets at Market Mar. 31, 1977	\$18,135,537

Performance in the First Quarter

In the first quarter of 1977 the Fixed Income Fund's unit value decreased by 0.6%. Including income the Fund increased by 1.5%. In comparison the McLeod, Young, Weir 40-Bond Index excluding income decreased by 1.7%. Including income it increased by 0.7%. The Fixed Income Fund outperformed the McLeod, Young, Weir 40-Bond Index during this quarter due to a larger commitment in short and mid term bonds. This strategy, which was also followed in 1976 and which resulted in the Fund underperforming the Index, has turned out to be appropriate in the first quarter of 1977.

Bond Market in the First Quarter

Our expectation that the positives would outweigh the negatives and allow the bond market to continue its improving trend in the first quarter turned out to be too optimistic for the long end of the market. Short term rates, aided by the third cut in the Bank Rate which occurred in January, continued to decline. There were minor movements in the mid term market. The Government of Canadas showed slight increases in yield while mid term provincials were unchanged to slightly higher in yield and certain sectors of the corporate mid term market showed a decline. It was in the long term market where the increase in yield was most evident. From year end both long term Government of Canadas and provincials increased in yield by approximately 1/2 of 1%. The increase in the corporate market was somewhat less.

Money market rates declined by 1/2 of 1% from an average of 8.25% to an average of 7.75% during the quarter. This was mainly due to the above mentioned Bank Rate reduction of 1/2 of 1% in January. While there were periods during this quarter when the money market rates tended to rise from this new level, it was mostly due to the technical position caused by excessive dealer inventories. Once these began to move down, the money market gave the impression of being reasonably firm at the 7.75% level.

In the bond market the spread widened between the mid and long term areas. There was good demand for mid term issues with a relative lack of supply excluding the Government of

Canada sector. The pull of lower short term rates tended to offset the erosion that was taking place in the long market so that the overall effect on the mid term market was negligible.

The long bond market turned in a performance that was unexpected by most people as they looked forward into 1977. There was no one main reason for the decline in long term bond prices during this quarter but rather a series of occurrences that combined to put downward pressure on the market. Beginning in January there was great expectation that further price improvement would be forthcoming. Dealer inventories were at an all time high, and while some observers expected that this could cause a technical correction, this was not the general view. However, accompanying the poor technical position of the Canadian market was the fact that the U.S. market began a sharp reaction downward in price. Concern about inflation and the fiscal program of the new government caused U.S. bond holders to take some profits from a market that had risen substantially in the last half of 1976. The expectation that the U.S. economy was beginning to move ahead again, even in face of problems caused by the weather, led to forecasts of higher interest rates in that market.

The long term market got no real support from the cut in the Bank Rate in January and was offset by a weakening of the Canadian dollar. The political situation and speeches by Messrs. Levesque and Trudeau continue to keep the Canadian scene well publicized in the foreign press. This had a negative effect on Canadian securities both in the U.S. and in the Euro-dollar market and spilled over into our domestic market. Money supply began to react to the cuts in the Bank Rate and showed substantial increases in February and March. This, accompanied by the weakening of the dollar, led to speculation that the once expected further cut in the Bank Rate would not be forthcoming. The poor economic performance in Canada, especially regarding unemployment and capital investment, prompted the Government to bring down an early budget on March 31st. The anticipation of this led to further uneasiness in the long term bond market. All of these factors

together, caused the decline in all segments of the long term market. At the close of the quarter the average money market rate was about 7.75% while long term Canada, provincial, and corporate rates were at 9.40%, 9.50%, and 9.80% respectively.

Outlook for the Future

In reviewing the outlook for interest rates and the bond market over the next quarter and then through the balance of the year, an assessment of the effect of the Budget brought down on March 31st is necessary. The increase in the cash financing needs of the Federal Government to approximately \$6.4 billion, up \$1 billion plus from a year ago, is bound to have some effect upon the market. There have been fears that any amount in excess of \$6 billion could cause some interference with the financing requirements of our other entities, both provincial and corporate. A further negative for the market is the forecast of a 7% inflation rate for Canada for 1977. Given this, current interest rates are somewhat short of a historic real rate of return. On the more positive side the decline in the rate of growth of Federal Government expenditures is good. More importantly, from the bond market standpoint, the continued attention being paid to the inflation problem can only help the situation. Reading the Budget along with the recent Annual Report of the Governor of the Bank of Canada leads one to believe that for the time being the fiscal and monetary authorities are

on the same road and therefore, it is unlikely that the central bank would have to make any tightening moves to offset an excessive fiscal stance. Taking all of this into consideration, it is likely that the effect of the Budget on the bond market will be neutral.

In the short run the direction of interest rates in both the U.S. and Euro-dollar market is likely to have the greatest impact. While the forecast for U.S. interest rates generally looks for an up trend, we have to realize that U.S. long term rates have moved sharply in the first quarter from the lows reached at the year end. The likely course of events is for U.S. rates to move within a narrow band, and with this in mind, we would expect that Canadian rates will be maintained within a small range of current levels. Any further cut in the Bank Rate will depend upon the action of money supply growth over the next few months and also will have to take into account the condition of the Canadian dollar in the foreign exchange market.

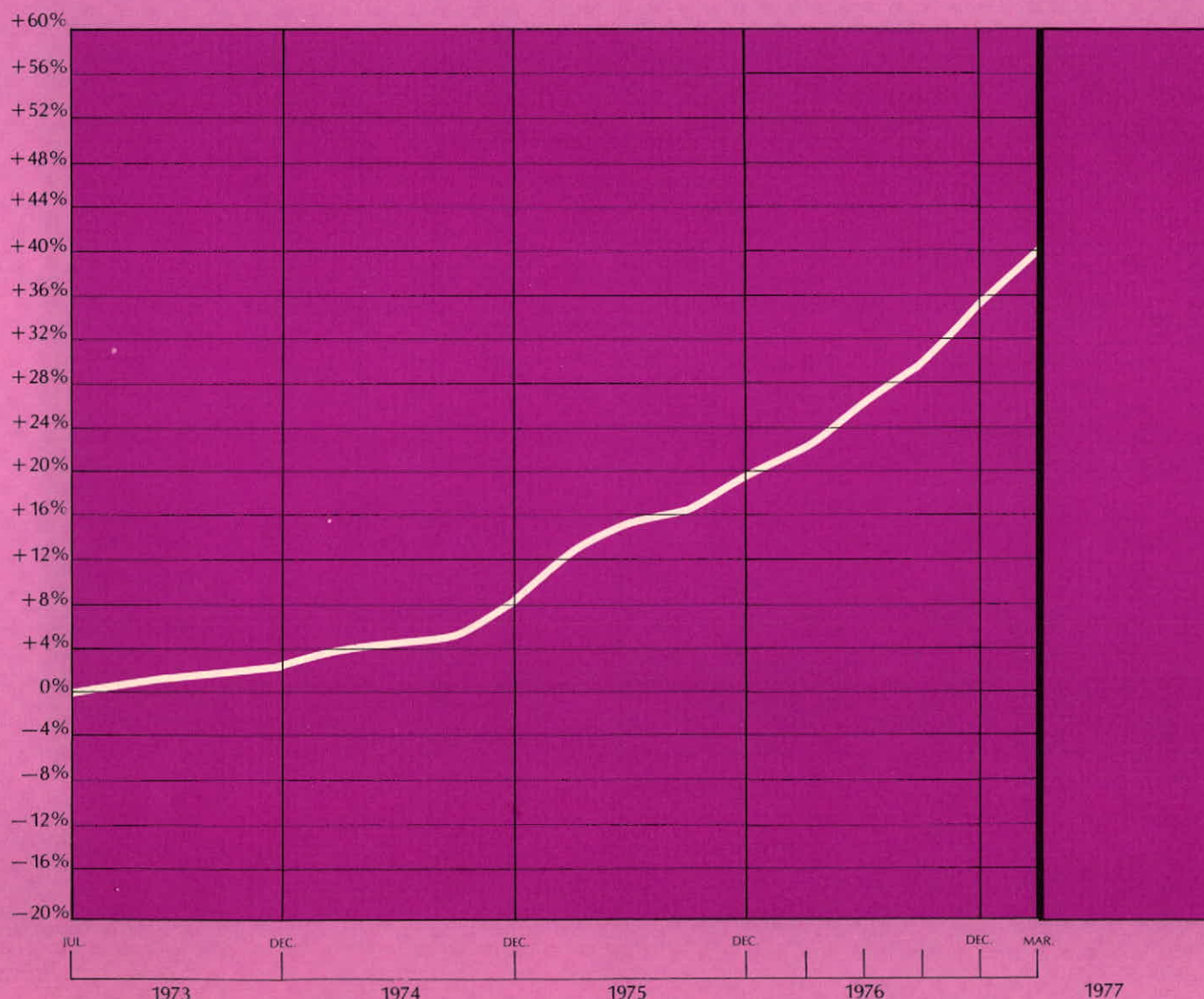
Strategy

The Fund continues at close to fully invested, however there has been a small increase in cash reserve. While the long term market deteriorated within the first quarter, our major holdings in the mid term area held up well. Thus, the stress on maintaining a substantial portion in the short and mid term market was appropriate, and this strategy will be continued in the coming quarter.

Portfolio Composition:

	Dec. 31, 1976	Mar. 31, 1977
Reserve	2%	9%
Canadas	5	2
Provincials	18	18
Corporates	73	69
Conv. Debs.	2	2
	<u>100%</u>	<u>100%</u>

Comparisons Between	GRAPH COLOUR	VALUE MAR. 31/77	VALUE DEC. 31/76	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE YEAR-TO-DATE	AVERAGE ANNUAL COMPOUND YIELD SINCE INCEPTION
Mortgage Fund		\$ 9.96	\$ 9.87	+ 0.9%	+ 0.9%	—
Mortgage Fund (Incl. Inc.)	■	\$13.99	\$13.55	+ 3.2%	+ 3.2%	+ 3.3%



Performance in the First Quarter

The unit value of the Mortgage Fund was \$9.96 as of March 31, 1977 which compares with a value of \$9.87 as of December 31, 1976, an increase of 0.9%. Including income the value of the Mortgage Fund units has increased from \$13.55 to \$13.99, a change of 3.2% during this period.

Mortgage Market in the First Quarter

Mortgage rates continued to react to cuts in administered rates. With the cut in the Bank Rate in January by 1/2 of 1%, NHA mortgage rates declined to as low as 10%. There was tendency late in the quarter for this rate to move slightly higher although the slow tempo of projects being offered for financing made it difficult to assess whether this was a definitive trend or not.

The secondary market was very quiet. Very little product was available. The narrowing of the spread between mortgages and bonds (mortgage rates have continued to decline while bond rates in the comparable term were at best unchanged), has led to a very dull market.

Outlook for the Future

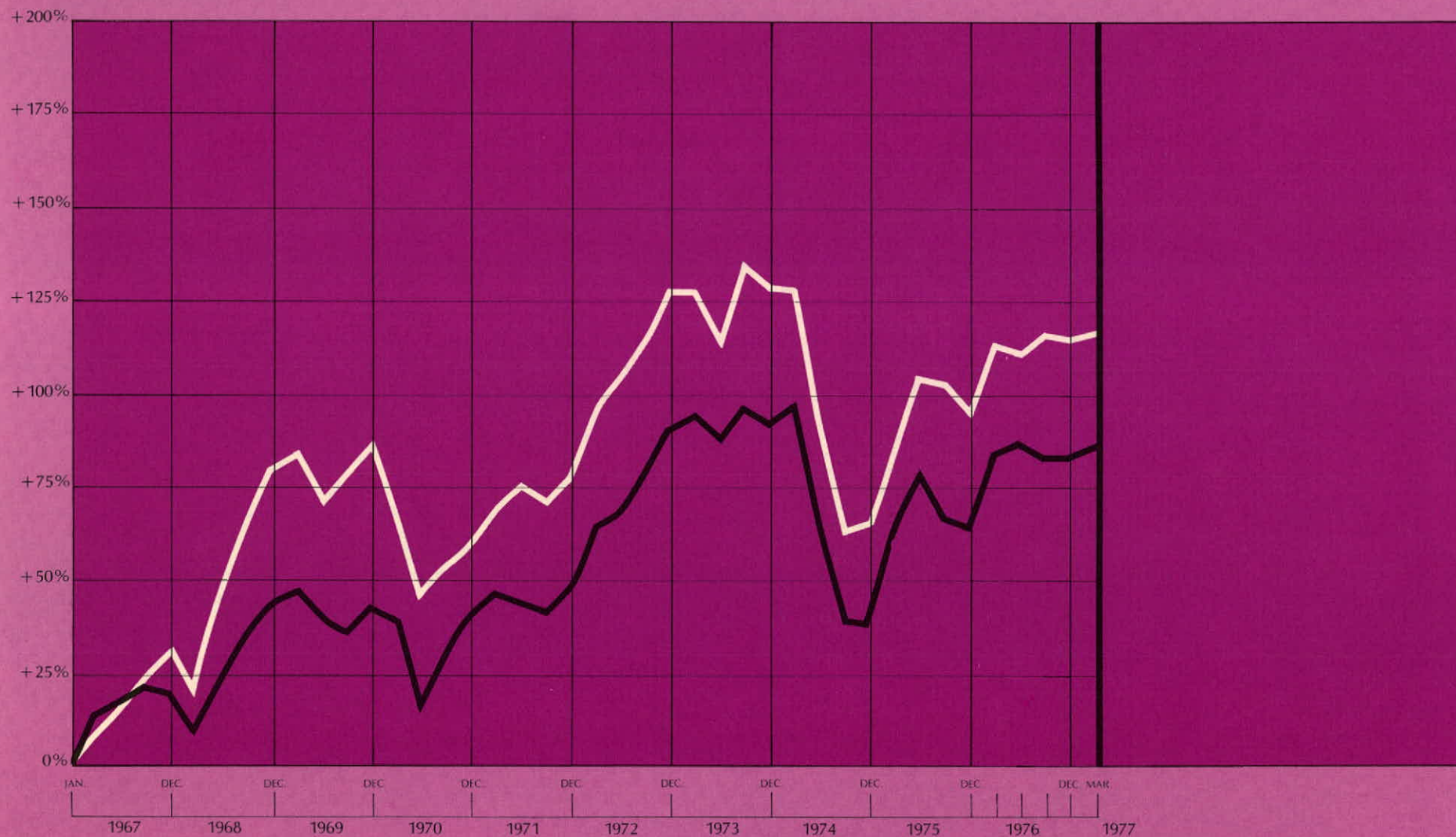
It is likely that mortgage rates will continue around current levels with the possibility that there might be a slight increase in rates quoted by certain lenders. Any increase will likely come in those areas of the country where the resale market is picking up and from those lenders who are most active in this sector. For new projects at this time there appears to be sufficient funds available and unless the pickup becomes stronger, we would not envision any change in rates. On the down side, should another cut in the Bank Rate materialize in the next quarter, there could be some further adjustment in mortgage rates. There would have to be a corresponding change in bond yields before this would become general. Currently the spread between mortgages and bonds is narrow by historic standards and some money originally destined for mortgages will probably go into bonds.

Strategy

The Mortgage Fund continues to be committed in 5 year NHA mortgages although there has been some increase in the cash reserve.

Canadian Equity Fund

<i>Comparisons Between</i>	GRAPH COLOUR	VALUE MAR. 31/77	VALUE DEC. 31/76	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE YEAR-TO-DATE	COMPOUND RETURN SINCE INCEPTION (ANNUALIZED)
Canadian Equity Fund		\$ 14.89	\$ 14.91	—0.1%	—0.1%	+ 4.0%
Canadian Equity Fund (Incl. Inc.)	■	21.39	21.19	+ 0.9%	+ 0.9%	+ 7.7%
TSE 300		1,022.11	1,011.52	+ 1.1%	+ 1.1%	+ 2.6%
TSE 300 (Incl. Inc.)	■	1,882.00	1,839.30	+ 2.3%	+ 2.3%	+ 6.4%



Canadian Equity Fund

Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value March 31/77	Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value March 31/77
Banks — 14.4%							
36,000	Bank of Nova Scotia	19 5/8	\$ 706,500	10,000	McIntyre Mines	32 1/2	325,000
28,000	Canadian Imperial Bank of Commerce	23 5/8	661,500	16,000	Mattagami Lake Mines	14 1/4	228,000
22,000	Royal Bank of Canada	24	528,000	10,000	Noranda Mines	33 1/4	332,500
32,000	Toronto Dominion Bank	17 5/8	564,000	17,000	Placer Development	22 5/8	384,625
			<u>\$ 2,460,000</u>	10,000	Rio Algom Mines	27 1/2	275,000
				33,700	Sheritt Gordon Mines	5 7/8	197,987
							<u>\$ 3,421,333</u>
Beverages — 3.1%				Oils & Gas — 14.2%			
19,800	Brights, T. G. Class A	6	\$ 118,800	10,000	Canadian Superior Oil	42	\$ 420,000
7,300	Molson Company	17 1/2	127,750	8,000	Dome Petroleum	40 1/2	324,000
10,000	Hiram Walker-Gooderham & Worts	29	290,000	12,000	Home Oil Co. Class A	29 1/8	349,500
			<u>\$ 536,550</u>	8,000	Hudson Bay Oil & Gas	33 5/8	269,000
Communications — 3.5%				14,000	Husky Oil	24	336,000
38,185	Standard Broadcasting Corp.	7 7/8	\$ 300,707	10,000	Pacific Petroleum	27 1/2	275,000
20,000	Torstar Corp. Class "B"	14 3/4	295,000	1,000	Siebens Oil & Gas	13 5/8	13,625
			<u>\$ 595,707</u>	5,050	Texaco Canada	28 3/4	145,188
Construction & Material — 1.3%				33,000	Union Gas Co. of Canada	9 1/4	305,250
10,000	Genstar	22 7/8	<u>\$ 228,750</u>				<u>\$ 2,437,563</u>
Forest Products — 9.9%				Pipelines — 7.0%			
38,000	Abitibi Paper Co.	10 3/4	\$ 408,500	20,000	Alberta Gas Trunk Lines	13 1/4	\$ 265,000
17,000	British Columbia Forest Products	25 1/2	433,500	17,000	Interprovincial Pipeline	13 5/8	231,625
10,000	Domtar	16 1/8	161,250	20,000	Trans-Canada Pipeline	14 1/8	282,500
21,000	MacMillan Bloedel	24 1/4	509,250	15,000	Westcoast Transmission Co.	27 7/8	418,125
18,030	Price	10 1/2	189,315				<u>\$ 1,197,250</u>
			<u>\$ 1,701,815</u>	Real Estate — 0.7%			
Insurance — 5.4%				28,350	Commonwealth Holiday Inns	4 1/20	<u>\$ 114,817</u>
7,050	Crown Life Insurance	46	\$ 324,300	Steel — 3.0%			
6,000	Great West Life	55	330,000	9,900	Dominion Foundries & Steel Class A	25 1/4	\$ 249,975
30,000	MICC Investments	8 7/8	266,250	10,000	Steel Co. of Canada Class A	26 1/4	262,500
			<u>\$ 920,550</u>				<u>\$ 512,475</u>
Merchandising — 7.3%				Trust & Loan — 4.8%			
15,000	Dominion Stores	14 5/8	\$ 219,375	13,940	Canada Permanent Mortgage Corp.	16 5/8	\$ 231,753
15,000	Hudson Bay Co.	15 3/4	236,250	15,000	Canada Trustco Mortgage A	23 3/8	350,625
60,000	Simpson's	5 3/8	322,500	15,000	IAC	15 3/4	236,250
4,200	Simpsons Sears	8 1/8	34,125				<u>\$ 818,628</u>
10,000	Steinbergs	14 5/8	146,250	Utilities — 3.0%			
17,000	Woodward Stores	16 5/8	282,625	8,000	Calgary Power Class A	23 1/2	\$ 260,000
			<u>\$ 1,241,125</u>	20,000	Canadian Utilities Ltd.	13	260,000
Mines & Metals — 20.0%							<u>\$520,000</u>
19,000	Alcan Aluminum	27 7/8	\$ 529,625	Miscellaneous — 2.0%			
8,700	Cominco	37 7/8	329,512	20,000	Canadian Pacific	17 1/8	<u>\$ 342,500</u>
17,170	Hudson Bay Mining & Smelting	18 7/8	324,084	Reserve — 0.4%			
15,000	Inco	33	495,000		Cash and Short Term Notes		<u>\$ 73,733</u>
				Total Assets at Market, March 31, 1977			
							<u><u>\$17,122,796</u></u>

Canadian Equity Fund

Portfolio Balance

	Mar. 31/76	Dec. 31/76	Mar. 31/77
Common Stocks & Equivalents	99.9%	97.7%	99.6%
Reserve	0.1	2.3	0.4
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

	Mar. 31/76	Dec. 31/76	Mar. 31/77
Consumer Products & Services	39.3%	38.1%	39.2%
Cyclical	40.6	36.3	36.2
Energy	14.5	12.3	14.2
Regulated	5.5	11.0	10.0
Reserve	0.1	2.3	0.4
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at March 31, 1977 (By Market)

	Percent of Total Portfolio
Bank of Nova Scotia	4.1%
Canadian Imperial Bank of Commerce	3.9
Toronto-Dominion Bank	3.3
Alcan Aluminium Ltd.	3.1
Royal Bank of Canada	3.1

Canadian Stock Market

This is the first time in three years that the Canadian stock market did not rise strongly in January. Some say, with good reason, that Canadian stocks performed very well relative to the U.S. market, and had the latter not been so weak, there would have been a much higher result in Canada.

In the event, the new Toronto Stock Exchange 300 Index was up about 1% in the first quarter while both the Dow Jones Industrial Average and the Standard & Poor 500 were off roughly 8.5%. The difference, in favour of Canada, is close to 10%.

There is a strong seasonal influence to move up in January and February in both countries, largely due to substantial cash flows into institutions coming late in the year. In Canada the effect of the investment of RRSP money in the stock market could be felt through the first quarter.

The Canadian stock market had been doing worse than the U.S. market for two years so some reversal was overdue. The three cuts in bank rate since the middle of

November should certainly cause some strength in stock prices. The market now is just about where it was before the bank rate cuts, and it would be disappointing if the total effect of this action was simply to keep Canadian stock prices from falling with the U.S. averages.

Canadian Stock Market First Quarter Result

	31 Dec. 1976	31 Mar. 1977	Change
T.S.E. 300 (without income)	1011.52	1022.11	+ 1.05%

Internal Features

There was quite a variation in performance among the major groups.

T.S.E. 300 Performance of Sub Indexes

Stronger		Weaker	
Index	1st Qtr. Change	Index	1st Qtr. Change
Gold	21.8%	Pipelines	0.9%
Metals	5.4	Utilities	0.7
Real Estate	4.7	Transportation	(0.8)
Communication	4.3	Industrial Products	(1.4)
Management Co's	2.8	Merchandising	(2.0)
Paper & Forest	2.7	Financial Services	(4.6)
Consumer Products	1.8		
Oil & Gas	1.6		

The outstanding features included the strong rebound by the gold stocks as the price of the metal recovered from its 1975-76 decline. Metal stocks also moved in relation to higher prices for base metals, particularly zinc, lead and to some extent copper.

Merchandising continued very weak in the first quarter of 1977, after being among the big losers in 1976. Some signs of a reversal of this poor relative performance became apparent late in the quarter.

The bank stocks also remained very soft, although first quarter earnings results were not generally disappointing. The weakness in this group may relate to the continuing impact of the AIB program on their profits.

The effect of what is now widely referred to as the "Quebec Situation" was quite mixed, with some Quebec stocks up, and others down.

The Value in the Market

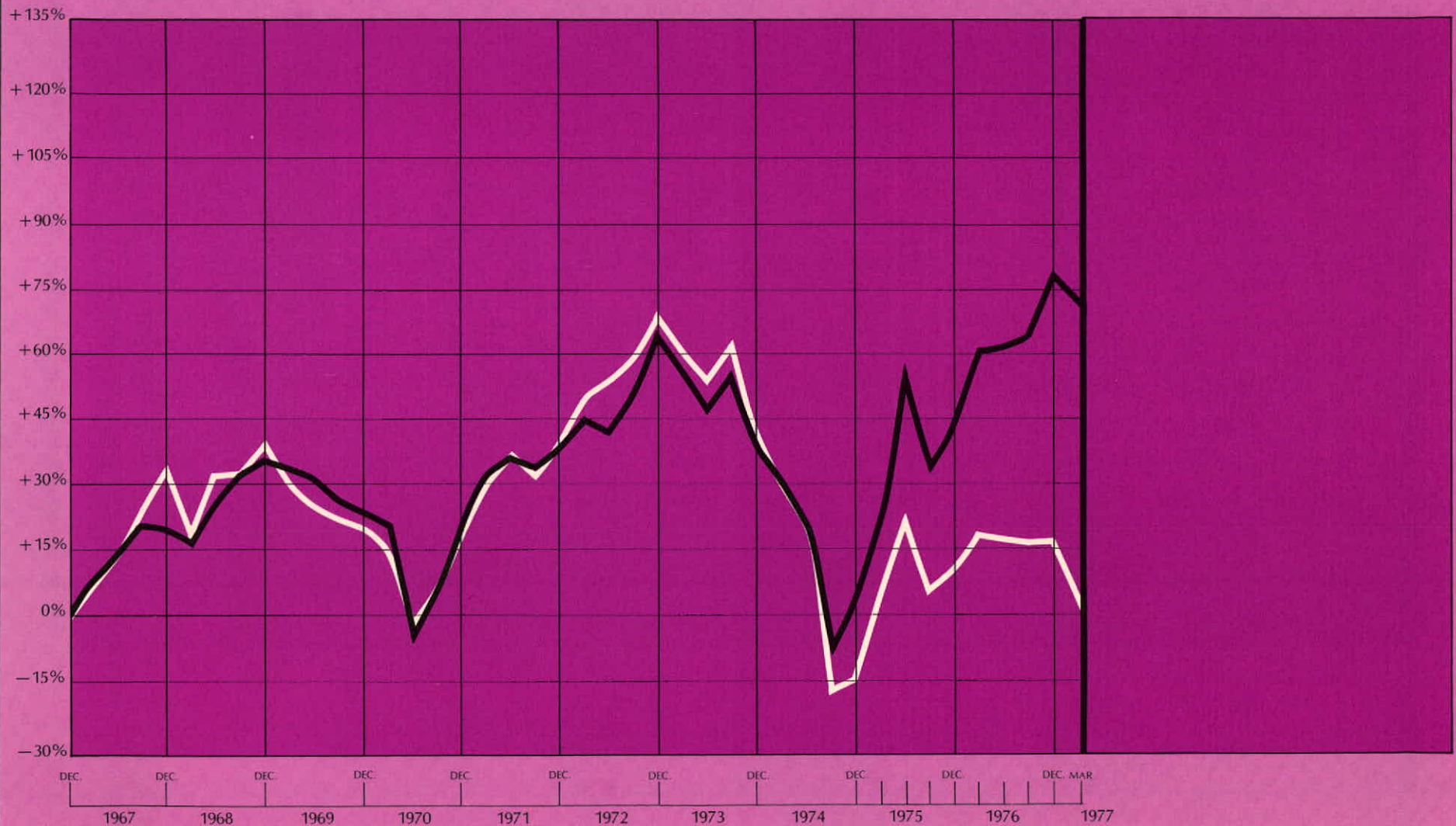
There was little change in price-earnings ratios or yields during the first quarter.

T.S.E. 300		
	31 Dec. 1976	31 Mar. 1977
Price-Earnings Ratio	8.99	8.96
Yield	4.71	4.72%

It is quite evident that investors confidence in Canadian common stocks remains at a low ebb.

International Equity Fund

<i>Comparisons Between</i>	GRAPH COLOUR	VALUE MAR. 31/77	VALUE DEC. 31/76	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE YEAR-TO-DATE	COMPOUND RETURN SINCE INCEPTION (ANNUALIZED)
International Equity Fund		\$ 8.26	\$ 9.29	—11.1%	—11.1%	—1.9%
International Equity Fund (Incl. Income)	■	10.43	11.67	—10.6%	—10.6%	+0.4%
*S & P 500		104.01	108.45	— 4.1%	— 4.1%	+ 2.6%
*S & P 500 (Incl. Inc.)	■	2,066.48	2,132.17	— 3.1%	— 3.1%	+ 6.2%



International Equity Fund

Investment Portfolio

Par Value Shares	Convertible Securities or Common Stock	U.S. Market Price	Canadian Market Value March 31/77	Par Value Shares	Convertible Securities or Common Stock	U.S. Market Price	Canadian Market Value March 31/77
Banks — 4.3%				Insurance — 1.9%			
10,000	Bankamerica Corp.	24 7/8	\$ 262,879	2,000	General Reinsurance	153	\$ 323,381
9,000	J. P. Morgan & Co.	50 1/2	480,316	Miscellaneous — 7.2%			
			<u>\$ 743,195</u>	10,000	Black & Decker	16 3/8	\$ 173,051
Chemicals — 3.0%				7,500	Caterpillar Tractors	54 5/8	432,958
13,000	Dow Chemicals	37 5/8	<u>\$ 516,907</u>	5,000	Lowes Companies Inc.	33 1/4	175,693
Drugs — 7.6%				14,000	Masco Corp.	19 1/2	288,506
10,000	American Home Products	29 3/4	\$ 314,398	3,000	Minnesota Mining & Manufacturing	50 1/8	158,916
13,000	Lilly, Eli & Co.	42 3/8	582,165				<u>\$ 1,229,124</u>
7,000	Merck Inc.	55 1/8	407,793	Oils — 11.9%			
			<u>\$ 1,304,356</u>	6,000	Atlantic Richfield Co.	52	\$ 329,722
Electronics — 12.1%				10,000	Continental Oil Co. of Delaware	34 7/8	368,559
18,000	AMP Incorporated	25 7/8	\$ 492,205	7,500	Schlumberger	59 3/8	470,606
7,000	Hewlett Packard	73 7/8	546,498	5,000	Standard Oil Co. Indiana	50 7/8	268,823
22,000	Perkin-Elmer Corp.	17 3/4	412,680	6,000	Exxon Corp.	50 3/4	321,796
7,000	Texas Instruments	84 3/8	624,172	5,000	Haliburton Co.	55 5/8	293,922
			<u>\$ 2,075,555</u>				<u>\$ 2,053,428</u>
Forest Products — 2.4%				Personal Care — 2.7%			
10,000	Weyerhaeuser	38 1/2	<u>\$ 406,868</u>	5,000	Bristol Myers Co.	62 1/8	\$ 328,269
Foods & Beverages — 5.2%				6,000	Cheesebrough-Pond's Inc.	22	139,498
3,700	Coca Cola Co.	76 7/8	\$ 300,594				<u>\$ 467,767</u>
14,000	McDonalds Corp.	39 3/4	588,109	Photography — 3.3%			
			<u>\$ 888,703</u>	8,000	Eastman Kodak	68	<u>\$ 574,899</u>
Hospital Supply — 6.0%				Retail Trade — 7.4%			
16,000	Baxter Travenol Labs	31 5/8	\$ 534,741	15,700	S. S. Kresge Co.	32 1/2	\$ 539,232
7,000	Johnson & Johnson	67	495,639	10,000	J. C. Penny Co.	39	412,152
			<u>\$ 1,030,380</u>	5,000	Sears Roebuck & Co.	60 1/4	318,361
Information Processing — 20.5%							<u>\$ 1,269,745</u>
16,000	Automatic Data Processing	25 1/4	\$ 426,947	Reserve — 4.5%			
8,000	Burroughs Corp.	61	515,718	Cash and Short Term Notes			
15,000	Digital Equipment	41 3/4	661,821				<u>\$ 771,423</u>
4,500	International Business Machines	276 1/2	1,314,923	Total Assets at Market, March 31, 1977			
12,000	Xerox Corp.	47 7/8	607,132				<u><u>\$17,182,272</u></u>
			<u>\$ 3,526,541</u>				

International Equity Fund

Portfolio Balance

	Mar. 31/76	Dec. 31/76	Mar. 31/77
Common Stock & Equivalents	95.3%	95.0%	95.5%
Reserve	4.7	5.0	4.5
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

	Mar. 31/76	Dec. 31/76	Mar. 31/77
Consumers Products Division	41.1%	39.7%	36.1%
Cyclical	8.8	10.6	10.6
Energy	1.9	5.8	11.9
Technology	43.5	38.9	36.9
Reserve	4.7	5.0	4.5
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at March 31, 1977 (By Market)

	Percent of Total Portfolio
International Business Machines	7.7%
Digital Equipment	3.9
Texas Instruments	3.6
Xerox Corp.	3.5
McDonalds Corp.	3.4

FOREIGN STOCK MARKETS

United States

Perhaps the strong rise we saw late in 1976 was anticipating the normal seasonal strength of January. Certainly the year end marked a peak with the old tried and true Dow Jones Industrial Average at roughly 1000. It has not really gotten anywhere near that mark since year-end, and for the first quarter was down 8.5%.

The other indexes were not really much different. It will be recalled that the Dow Jones had a stronger recovery in 1975 than the broader indexes, but they were not much apart in 1976.

U.S. Stock Market First Quarter Results

	31 Dec. 1976	31 Mar. 1977	Change
Dow Jones Industrials	1004.65	919.12	(8.5)
Standard & Poor 500	107.45	98.42	(8.4)
N.Y.S.E. Composite	57.88	53.53	(7.5)

Internal Features

The utilities, although also carried along in the downdraft, held up better than the broad averages. The Dow Jones Utilities Index was off only 2.2% in the quarter.

This continued a trend set in 1976, which also applied to the transportation group. The Dow Jones Transportation Average was off 6%, not much but a little better than the industrials.

Among the large and important stocks, IBM gave a good account of itself, being down only 1% in the quarter. Other premium growth stocks did not fare so well. Xerox and Texas Instruments were down almost 18%, Kresge, Digital Equipment and Eastman Kodak, all over 20%. This also continued a trend apparent in 1976.

Value in the Market

Price-earnings ratios have been coming down on some stocks and overall the ratio is below year-end and historically low.

Price-Earnings Ratios

	Estimated 1977 Earnings Per Share	P/E Ratio
Standard & Poor 500	\$ 10.75	9.2
Dow Jones Industrials	110.00	8.4

The yield on the Standard & Poor 500 is about 4.6% and 4.1% on the Dow Jones Industrial Average. The improvement in yield since year end is a function of both lower prices and higher dividends.

Other Stock Markets

	31 Dec. 1976	31 Mar. 1977	Change
London (F. T. Industrials)	354.7	419.4	11.8%
Tokyo (Nikkei Dow)	4,990.85	5,036.46	0.9
Frankfurt (Commerzbank Index)	727.4	734.3	0.9

All these major markets have done better than the U.S. The really strong spot has been the U.K. where the Financial Times Index moved to a new high before closing down slightly from its peak level. This strength in the U.K. is interesting in view of prevailing attitudes toward that country and its problems.

Unit Values of Diversified Investment Funds Since Inception

	Fixed Income Fund			Mortgage Fund			Canadian Equity Fund			International Equity Fund		
	UNIT VALUE	INCOME YR./QTR./MO.	VALUE INCL. INC.	UNIT VALUE	INCOME YR./QTR./MO.	VALUE INCL. INC.	UNIT VALUE	INCOME YR./QTR./MO.	VALUE INCL. INC.	UNIT VALUE	INCOME YR./QTR./MO.	VALUE INCL. INC.
1966 Dec. 31	\$10.00		\$10.00				\$10.00		\$10.00	\$10.00		\$10.00
1967 Dec. 31	9.52	\$.62366	10.14				12.65	\$.33967	13.02	13.28	\$.22027	13.54
1968 Dec. 31	9.45	.60514	10.73				17.06	.36222	18.00	13.67	.27420	14.24
1969 Dec. 31	9.05	.71799	11.09				16.99	.59274	18.57	11.40	.38707	12.27
1970 Dec. 31	9.64	.74717	12.80				14.03	.58790	15.98	10.62	.34250	11.82
1971 Mar. 31	9.84	.19593	13.33				15.03	.12995	17.28	11.84	.05244	13.24
June 30	9.64	.18892	13.31				15.04	.12842	17.44	12.30	.04849	13.81
Sept. 30	9.90	.20070	13.96				14.59	.11095	17.05	11.79	.05142	13.30
Dec. 31	10.06	.19743	14.46				15.19	.10311	17.87	12.32	.05237	13.96
1972 Mar. 31	10.00	.18497	14.64				16.60	.11675	19.67	13.30	.06550	15.14
June 30	9.93	.18826	14.81				16.95	.11314	20.21	13.46	.04167	15.37
Sept. 30	9.97	.18887	15.16				17.78	.09474	21.32	13.92	.05572	15.96
Dec. 31	10.16	.18626	15.73				18.95	.12469	22.88	14.87	.04958	17.11
1973 Mar. 31	10.13	.18029	15.96				18.87	.09384	22.90	13.94	.06410	16.11
June 30	9.88	.17908	15.85				17.50	.12377	21.38	13.22	.05627	15.36
Sept. 30	9.77	.19265	15.99	9.92	.13906	10.07	19.24	.10939	23.64	13.98	.06974	16.32
Dec. 31	9.71	.19317	16.21	9.92	.20852	10.28	18.32	.16836	22.73	12.11	.05223	14.19
1974 Mar. 31	9.61	.19337	16.36	9.86	.22438	10.45	18.24	.12509	22.77	11.14	.04991	13.11
June 30	9.07	.19501	15.77	9.69	.21141	10.49	15.18	.19720	19.19	10.22	.05406	12.10
Sept. 30	8.91	.20719	15.86	9.50	.23806	10.54	12.53	.16598	16.05	6.68	.05505	7.96
Dec. 31	9.13	.21338	16.64	9.57	.23663	10.89	12.54	.20532	16.32	7.10	.04961	8.51
1975 Mar. 31	9.46	.19206	17.60	9.79	.20778	11.37	14.46	.18013	19.05	9.07	.04728	10.94
June 30	9.26	.19967	17.59	9.72	.22361	11.55	15.73	.13351	20.90	10.33	.07126	12.55
Sept. 30	9.03	.20160	17.54	9.53	.22903	11.60	15.04	.19163	20.23	8.42	.05070	10.29
Dec. 31	9.10	.19367	18.05	9.58	.22931	11.94	14.49	.16139	19.72	8.83	.05527	10.85
1976 Mar. 31	9.18	.20326	18.62	9.60	.23375	12.26	15.92	.15653	21.86	9.61	.05271	11.88
June 30	9.25	.20240	19.18	9.64	.23232	12.61	15.64	.15509	21.71	9.40	.04859	11.68
Sept. 30	9.33	.21144	19.79	9.69	.23378	12.99	15.45	.15367	21.66	9.30	.05021	11.62
Dec. 31	9.66	.22550	20.98	9.86	.23682	13.55	14.91	.19877	21.19	9.28	.05092	11.67
1977 Jan. 31	9.67	.06992	21.15	9.88	.07969	13.67	14.70	.02356	20.93	8.44	.00812	10.61
Feb. 28	9.63	.06845	21.21	9.95	.08046	13.88	14.82	.06150	21.18	8.34	.01941	10.52
Mar. 31	9.60	.07096	21.29	9.96	.07269	13.99	14.89	.07381	21.39	8.26	.01696	10.43

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